

What Is Saudi Aramco?

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Saudi Aramco is the world's largest oil producer. Officially known as Saudi Arabian Oil Company, the company is primarily state-owned and is based in Dhahran, Saudi Arabia. It is the world's most profitable company, eclipsing even tech giants such as Apple ([AAPL](#)) and Alphabet's Google ([GOOGL](#)).

The world got a sneak peek of this long-secretive company's financial snapshot after [credit rating agencies](#) released financial details about Saudi Aramco in April 2019 just before its debut international [bond](#) sale, which raised \$12 billion.^[1]

Saudi Aramco began attracting increased investor attention in 2016 when Saudi Crown Prince Mohammed bin Salman bin Abdulaziz Al-Saud announced plans to list 5% at a [valuation](#) of approximately \$2 trillion in what became the largest [initial public offering](#) (IPO).^[2]

KEY TAKEAWAYS

- Saudi Aramco is the world's largest oil producer and the world's profitable company.
- The company was established in 1933 and began drilling in 1938.
- It is primarily state-owned but raised \$29.4 billion in a 2019 IPO and a greenshoe option in 2020.
- Moody's rated the company an A1 because of its credit links to the Saudi government.
- Although the company reported lower net income for the 2020 fiscal year because of the global COVID-19 pandemic, Saudi Aramco remains ahead of its peers.

History of Saudi Aramco

Saudi Aramco was established following a [concession agreement](#) between the Saudi Arabian government and the Standard Oil Company of California in 1933. The company began primary drilling operations shortly after the agreement, commencing its first commercial oil production in 1938.^[3]

The company expanded rapidly across Saudi Arabia over the next decade, reaching [crude oil](#) production of 500,000 barrels per day in 1949. In order to keep up with production, the firm built out its distribution pipeline and built the Trans-Arabian Pipeline—the longest in the world.^[3]

In 1973, the Saudi Arabian government purchased a 25% interest in the company, gradually increasing its stake to 100% in the late 1970s. The Saudi Arabian Oil Company was officially established in the 1980s. Throughout the 1990s, it built global alliances and partnership deals. The company also began investing heavily in [research and development](#) (R&D) to expand into nonmetallic and crude-to-chemicals products.^[3]

Amin H. Nasser is the lead executive of Saudi Aramco. He is the company's president and [chief executive officer](#) (CEO). He also sits on its [board of directors](#), which is headed by Chairman Yasir Othman Al-Rumayyan.^[4]

FAST FACT

By 2017, the oil behemoth became the sole owner of North America's largest single-site crude oil refinery at Port Arthur, Texas.^[3]

Saudi Aramco's IPO

Plans for the company's public debut reportedly stalled in the past as some [market](#) watchers argued that the company's real value was far lower than the crown prince's \$2 trillion valuation. There were also uncertainties about whether investors would respond negatively to the IPO given the allegations that bin Salman was a key force behind the alleged murder of *The Washington Post* journalist Jamal Khashoggi.^[5]

Saudi Aramco went public with an [IPO](#) in 2019, raising a record \$25.6 billion by selling three billion shares. This amount was only 1.5% of the company's value—significantly lower than firms like Apple, which has more than 84% of its shares held by the public.^[6] Limiting ownership allows Saudi Arabia to remain in control of the company as proceeds from the offering are central to a plan by the Saudis to diversify the oil giant.

Using a [greenshoe](#) or over-allotment option, the company bumped up the size of its IPO to \$29.4 billion after selling 450 million additional shares. The IPO price valued the company at \$1.87 trillion—still below the Crown Prince's [valuation](#).^[7]

Saudi Arabia's Involvement in Saudi Aramco

Since the company is primarily a state-owned entity, the government of Saudi Arabia derives a significant portion of its wealth. In fact, Saudi Aramco pays a hefty [tax rate](#) of 50% to the Saudi Arabian government. Prior to 2017, the tax rate was 85%.^[8]

Saudi Aramco's ties to the government resulted in a lower rating than would be expected of a firm of its stature. Moody's rated the company an A1 because of its credit links to the Saudi government.^[9] This puts it below peers like Chevron and Exxon.

"While there is a clear track record of Aramco having been run as a commercially independent company, the government's budget is highly reliant upon contributions from Aramco in the form of royalties, taxes, and dividends," wrote Moody's senior credit officer Rehan Akbar.^[10]

Important: In an effort to transform itself from an oil-producing and exporting company to an integrated petroleum enterprise, Aramco formed a joint venture with Texaco in the U.S. in 1989.^[3]

Saudi Aramco's Financials

Saudi Aramco's financials weren't available to the public since the company was nationalized in the late '70s. The oil company made its financial information available in a [prospectus](#) tied to a \$10 billion bond sale planned for 2019.

Fiscal 2020 marked Saudi Aramco's second year as a public company. The year was marked by a series of weaknesses, thanks to the global COVID-19 [pandemic](#). Net income came in at \$49 billion for the year, which was a drop from the \$88 billion the company reported in 2019.^[11] Demand and the [volatility](#) of energy prices made a huge impact on the company and its [bottom line](#) during the year. The second half of the year showed a slight improvement as demand began to pick up.^[12]

Aramco's reserves sat at 255.2 barrels as of Dec. 31, 2020. This figure included 198.8 billion of crude oil, 25.2 billion of natural gas liquids, along with 191.6 trillion standard cubic feet of [natural gas](#).^[13] Compare this to the reserves of Exxon Mobil, which reported 15 billion barrels—60% oil and 40% natural gas—by the end of 2020.^[14]

Despite the challenges, Saudi Aramco continues to remain ahead of its competition. Royal Dutch Shell ([RDS.A](#)) is the largest public company after Saudi Aramco, reported \$4.85 in profits for the fiscal year, compared to \$16.5 billion in annual profits for 2019.^[15] The world's most profitable [public company](#) after Aramco is Apple. The iPhone maker generated \$57.4 billion in profits in 2020, which was an increase from the \$55.2 billion it earned in 2019.^[16]

The company hit a milestone a year after [going public](#), purchasing a 70% stake in chemical manufacturing firm, Saudi Basic Industries Corporation. The remaining 30% of the company's shares are held and traded by public shareholders on the Saudi stock exchange. The acquisition was completed in 2020 and was worth \$69.1 billion.^{[17][18]}

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